

# Economic Indicators

Prepared by the Department of Finance • February 2016

*The purpose of this report is to keep policy makers apprised of changes in  
the national and local economies that  
the Montgomery County Department of Finance  
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet  
on the Montgomery County Web Page:  
<http://www.montgomerycountymd.gov/finance/economic.html>*

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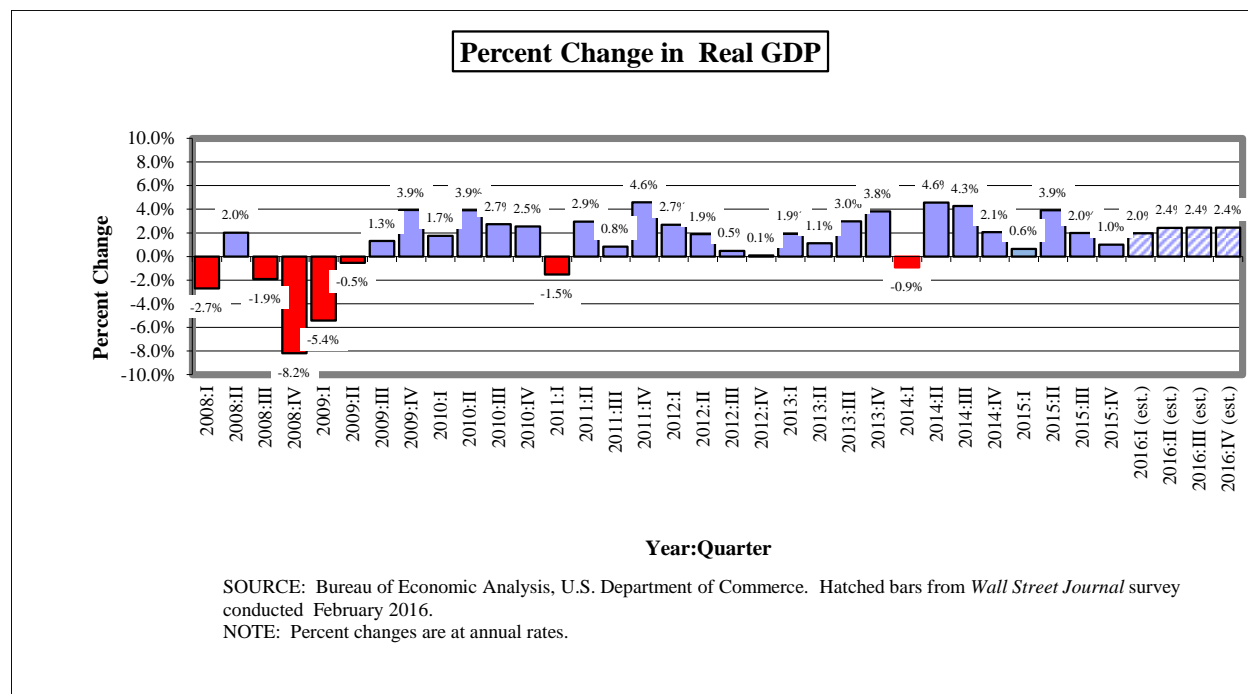
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## INTRODUCTION

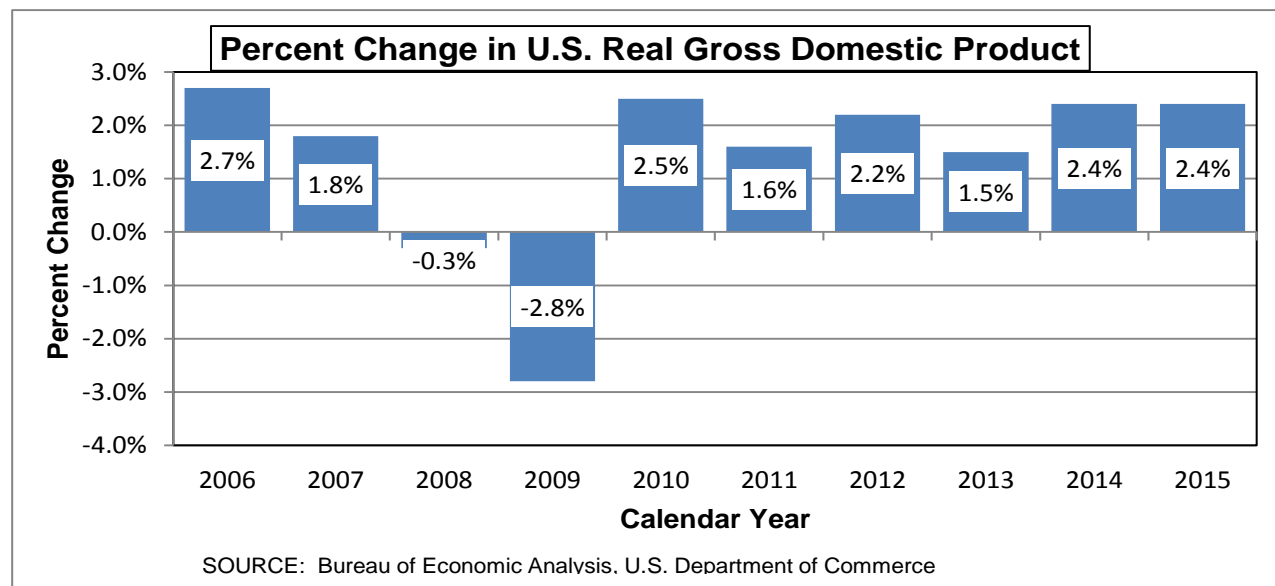
**This quarterly report provides an analysis of national, regional, and Montgomery County economic indicators for the calendar year 2015. Quarterly data presented in this report are seasonally adjusted, but monthly data are not seasonally adjusted.**

## NATIONAL ECONOMY

According to the revised estimate by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real gross domestic product (GDP) increased at a 1.0 percent seasonally adjusted annual rate during the fourth quarter of 2015. That increase followed an increase of 2.0 percent during the third quarter. Data released by BEA for the fourth quarter showed that the increase in real GDP was attributed to an increase in personal consumption expenditures ( $\uparrow 2.0\%$ ), residential fixed investment ( $\uparrow 8.0\%$ ), and federal government spending ( $\uparrow 2.2\%$ ). Households consumed less than originally estimated for the fourth quarter, i.e., down from the initial 2.2 percent growth, and a decrease from the 3.0 percent during the third quarter of last year. Fourth quarter growth was subdued because of the decline in private inventories, nonresidential fixed investment ( $\downarrow 1.9\%$ ), and exports ( $\downarrow 2.7\%$ ) and were drags on the economy attributed to weaknesses in the global economies. Real final sales of domestic product (real GDP less the change in private inventories) increased 1.2 percent in the fourth quarter compared to an increase of 2.7 percent during the third quarter. Based on the *Wall Street Journal* (WSJ) survey of fifty economists, the average of the responses expects economic growth to increase 2.4 percent during the first quarter of this year, and 2.5 – 2.6 percent during the remaining three quarters in 2016.



On a calendar year basis, real GDP increased 2.4 percent in 2015 – the same rate of increase as in 2014. That followed increases of 2.2 percent and 1.5 percent in 2012 and 2013, respectively. Since the end of the great recession in June 2009, the average annual increase in real GDP was 2.1 percent.

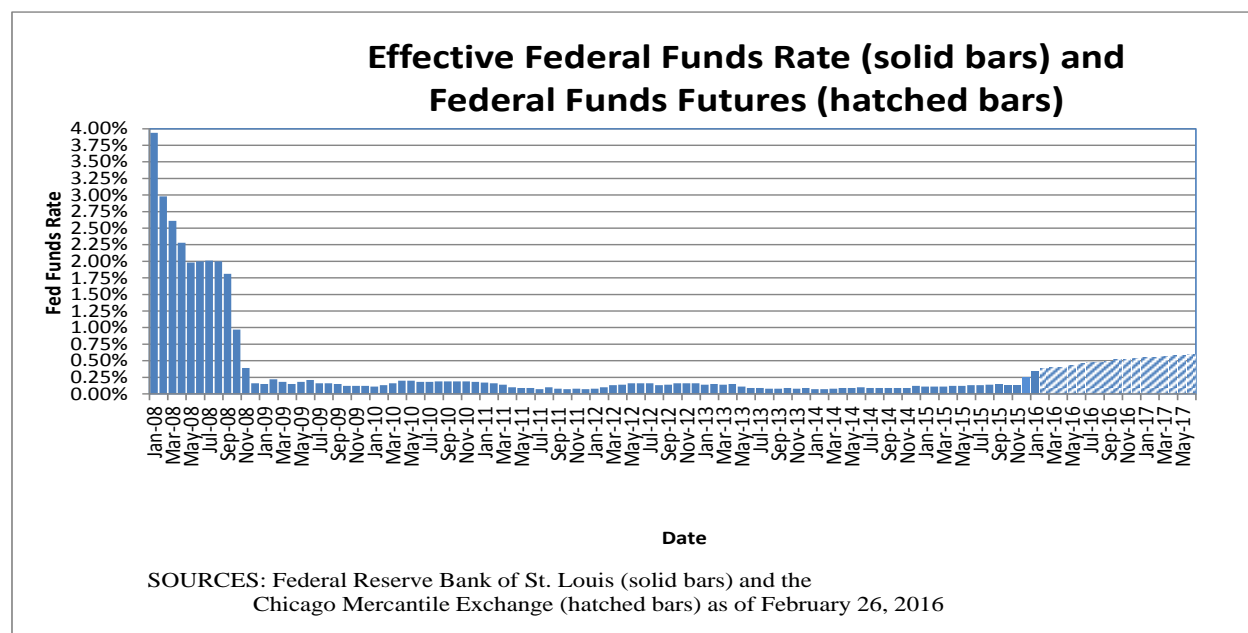


Subsequent to the January 26-27, 2016 meeting of the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System, the Committee expected that “with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen. Inflation is expected to remain low in the near terms, in part because of the further declines in energy prices, but to rise to 2 percent over the medium term as the transitory effects of the declines in energy and import prices dissipate and labor market strengthens further.”

Following its December 2015 meeting, the FOMC released its latest economic projections from 2016 to 2018 (the next scheduled release of its economic projections is in March). Real GDP is expected to increase between 2.3 and 2.5 percent in 2016, between 2.0 and 2.3 percent in 2017, and between 1.8 and 2.2 percent in 2018. The *WSJ* February survey of economists by the estimates that real GDP will increase 2.4 percent in 2016.

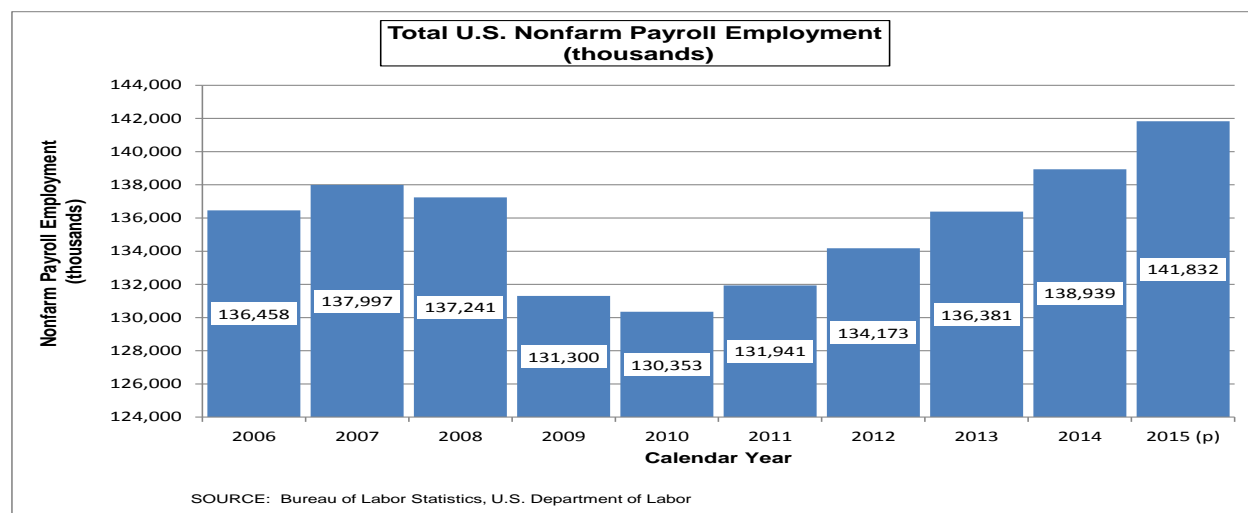
Both the *WSJ* February survey and the economic projections by the FOMC in December suggest that unemployment will gradually decrease to 4.7 percent by the end of 2016. “Core” inflation, as measured by the personal consumption expenditure (PCE) index excluding food and energy and the preferred measure of inflation by the FOMC, will increase modestly between 1.2 and 1.7 percent in 2016 and between 1.8 and 2.0 percent by 2017. According to personal income data released by BEA on February 26, the “core” PCE increased 1.7 percent in January from the year earlier. That rate matches the upper bound forecast by the FOMC and the largest year-over-year increase since July 2014. The *WSJ* survey suggests that inflation, as measured by the consumer price index (CPI), will increase to 2.3 percent by December 2017.

In December 2015, FOMC voted to raise the targeted federal funds rate from the 0.00-0.25 percent range to the 0.25-0.50 percent range. After the December meeting, the FOMC released its economic projections through 2018. The Committee planned to increase the target interest rate four times this year raising the benchmark rate to 1.40 percent by the end of this year. Following its January 2016 meeting, the FOMC voted to maintain the target rate 0.25-0.50 percent. Subsequent to that meeting, the futures market for the 30-day federal funds rate remains at or below the 0.50 percent level through the remainder of 2016 suggesting that the planned four rate increases by the FOMC will not occur.



National sales of existing homes increased 6.3 percent in 2015 following a decrease of 2.9 percent in 2014. Median home prices for existing homes increased 6.8 percent in 2015 and the average sales price increased 4.3 percent. The inventory level decreased 3.8 percent in 2015 and was the lowest inventory level in over seventeen years.

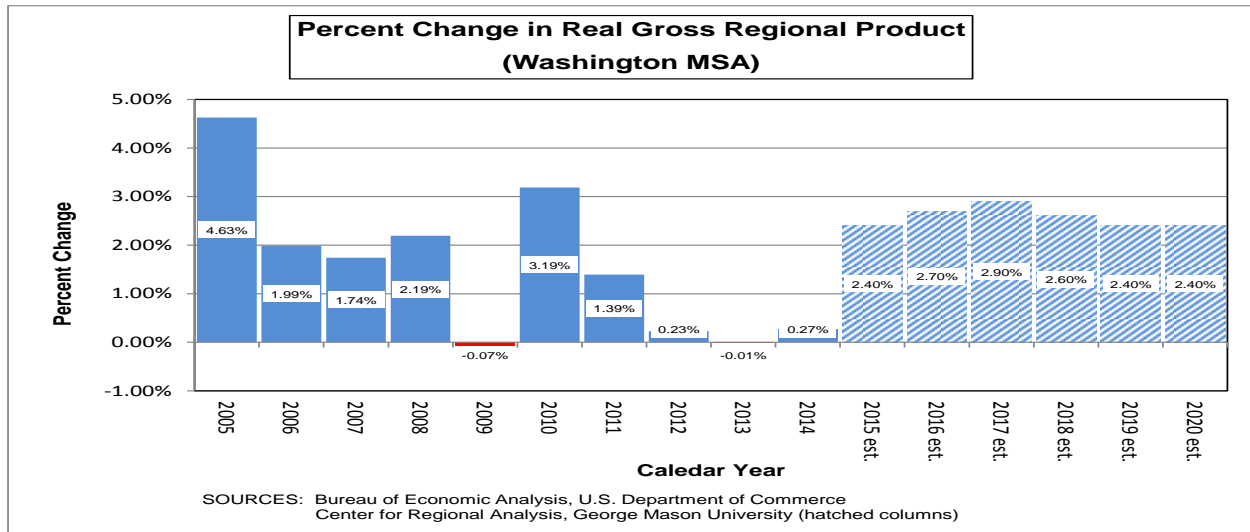
National employment, as measured by the survey of establishments (Current Employment Statistics), was 141.8 million in 2015 – an increase of nearly 2.9 million or 2.1 percent. On a seasonally adjusted basis, the unemployment rate declined to 4.9 percent in January 2016 and is the lowest since February 2008.



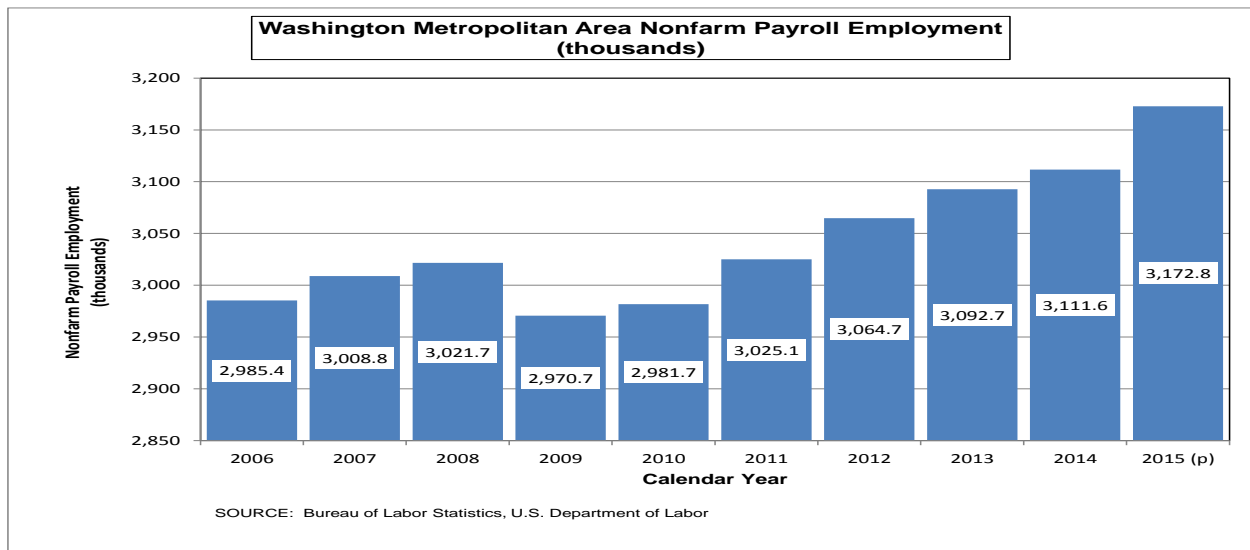
Following positive rates of return in 2014, three of the four markets declined in 2015. The Dow Jones Industrial Average (DJIA) declined 2.23 percent in 2015 which followed a 7.52 percent increase in 2014. The Standard and Poor's 500 Index (S&P 500) decreased 0.73 percent in 2015 following an 11.39 percent increase in 2014, and the Russell 2000 index decreased 5.71 percent in 2015 after increasing 3.53 percent in 2014. The NASDAQ, which outperformed the other three indices in 2014 (↑13.40%) increased 5.73 percent in 2015. Through February 26, all four indices declined year to date: DJIA (↓4.51%), NASDAQ (↓8.33%), S&P 500 (↓4.69%), and the Russell 2000 (↓8.69%).

## REGIONAL ECONOMY

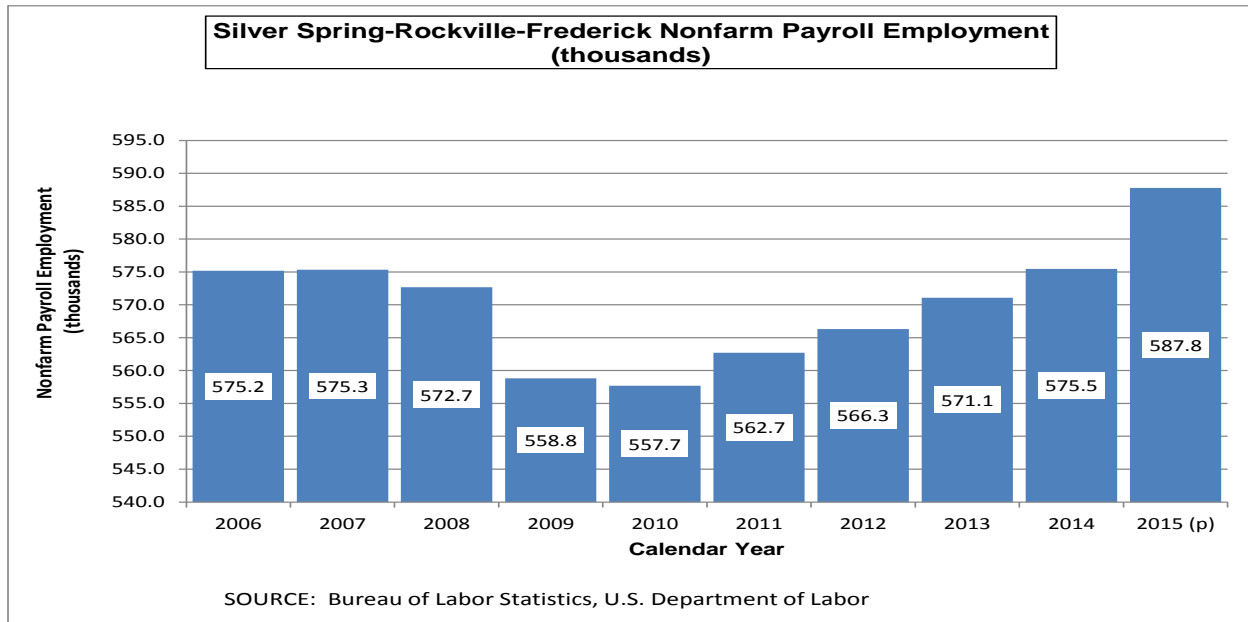
According to BEA, the region's economy grew at a 0.27 percent rate in 2014. That increase followed an increase of 0.23 percent in 2012 and a decline of 0.01 percent in 2013. The sectors that contributed to the increase were professional and business services (↑0.81%), educational services etc. (↑1.05%), and arts and entertainment etc. (↑1.55%). Government spending declined 0.07 percent in 2014. The Center for Regional Analysis – George Mason University (CRA) estimates that the gross regional product will increase 2.40 percent in 2015, 2.70 percent in 2016, and 2.90 percent in 2017.



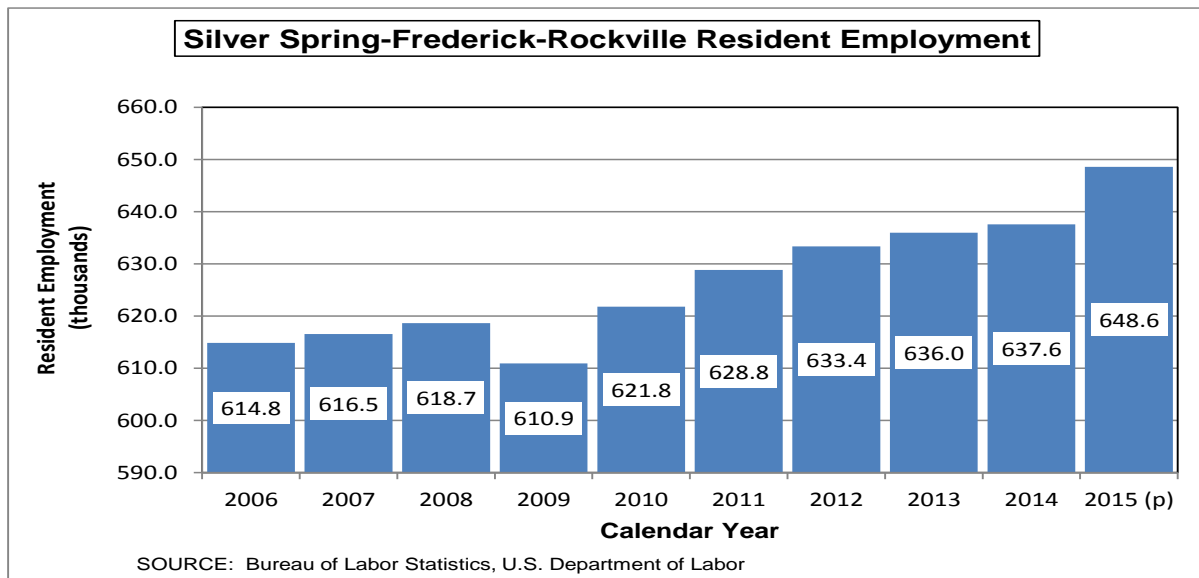
According to payroll employment data from the Bureau of Labor Statistics, U.S. Department of Labor and based on the survey of establishments, employment in the Washington area was 3,172,800 in 2015 – an increase of 2.00 percent from 2014.



Payroll employment for the Silver Spring - Rockville - Frederick (SSRF) metropolitan division was 587,800 in 2015 and 2.14 percent above 2014 and with growth above the rate for the entire Washington metropolitan region.

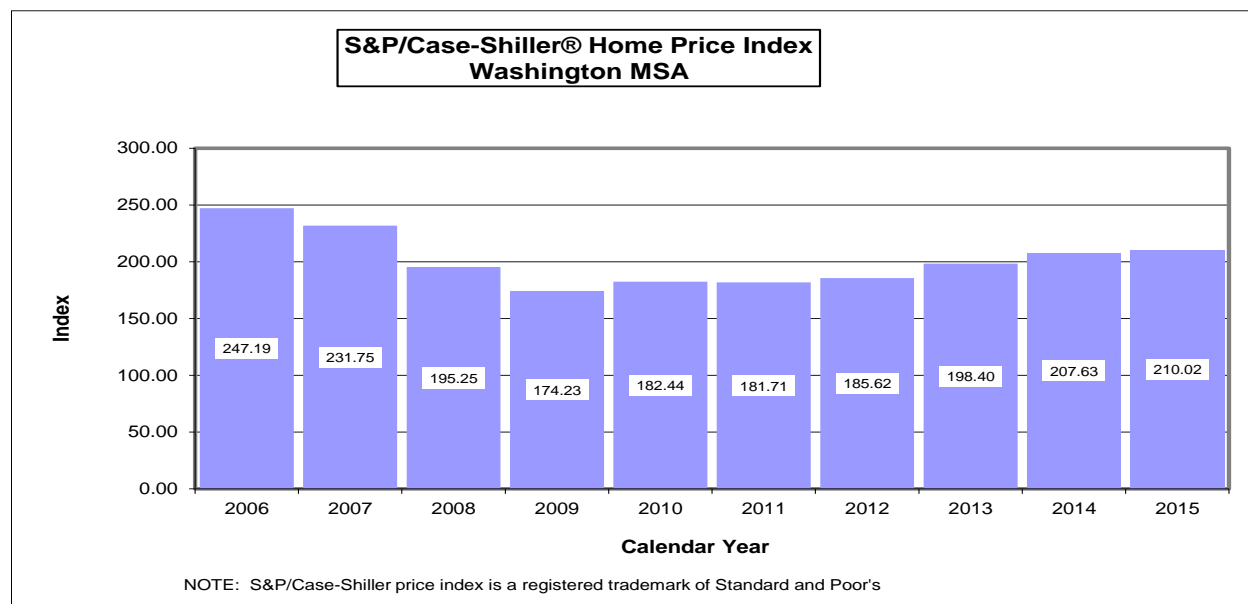


Resident employment for the Silver Spring – Frederick – Rockville metropolitan division, as measured by the survey of households or resident employment, exhibited a similar trend in 2015. Employment as measured by that survey increased 1.73 percent from 637,600 in 2014 to 648,600 in 2015. Since there is a slight difference in the trend of the two separate measures of employment in 2015, that difference suggests that while employers in the SSFR metropolitan division continue to hire, some of the new employees working in the SSFR metropolitan division are residing outside the Montgomery-Frederick counties.

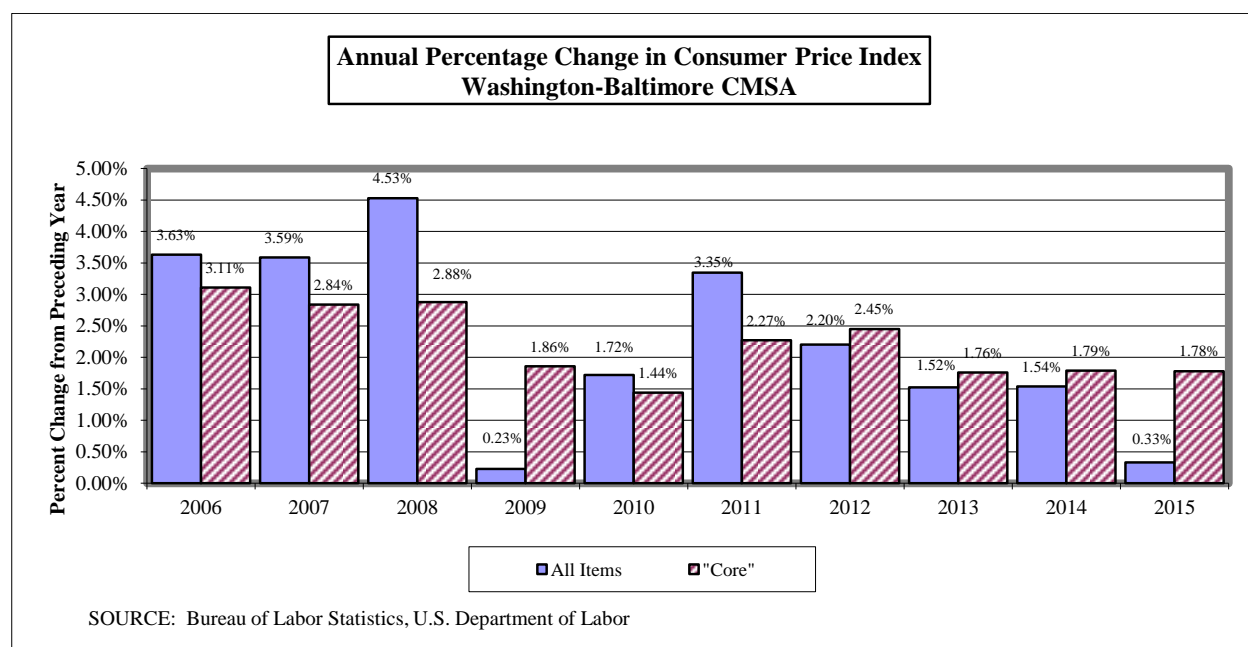


The resale housing market across the region experienced growth of 1.7 percent in prices, on a year-over-year basis, between December 2014 and December 2015. Based on the S&P/Case-

Shiller® Home Price Index for the Washington region, prices in 2015 increased 1.2 percent for the year.

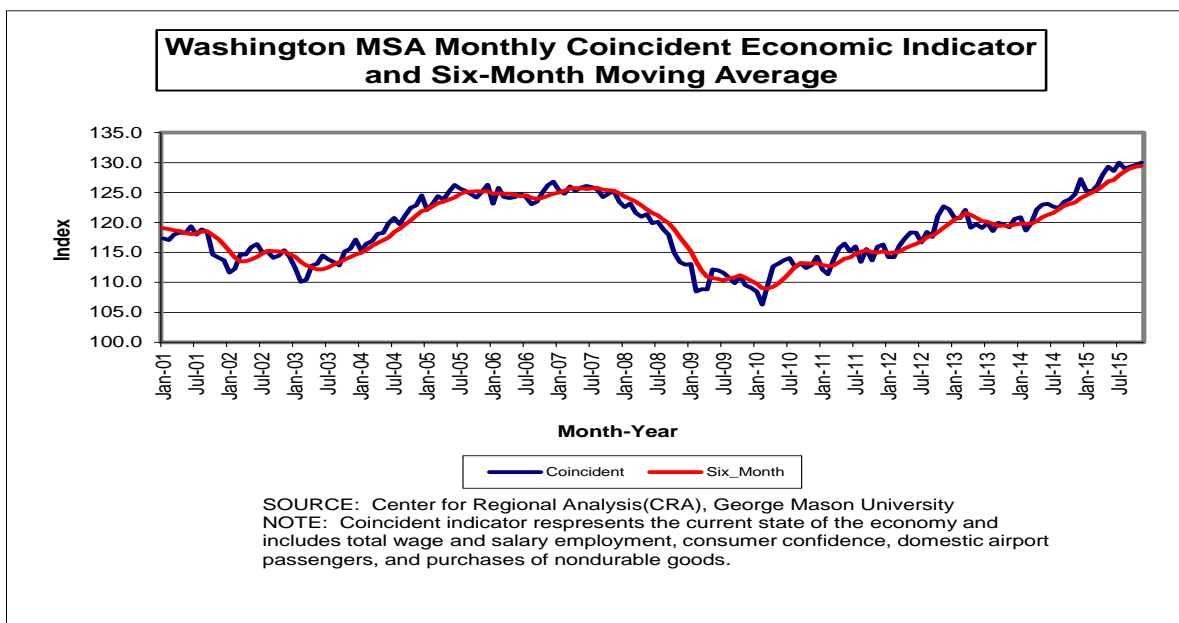


As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased a meager 0.33 percent in 2015. Consumer prices excluding food and energy purchases were up 1.78 percent in the region (on the same year-over-year basis).

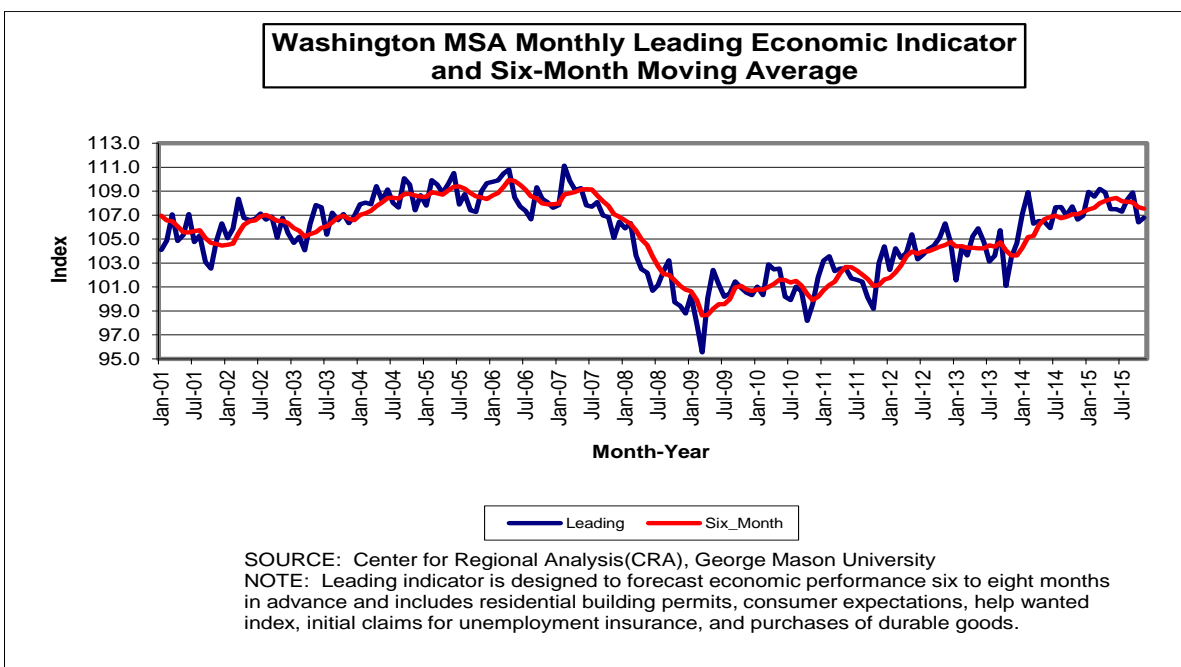


According to CRA, the monthly coincident economic indicator for the Washington metropolitan region increased 4.7 percent from November 2014 to November 2015 – the latest

date for which data are available. The coincident index measures the current performance of the region's economy and now declined in two of the past three months.



While the coincident indicator increased a strong 4.7 percent in November 2015, CRA also reported that the leading economic indicator increased a meager 0.9 percent from over the same twelve month period. The leading index measures the economic performance of the region three to six months ahead.

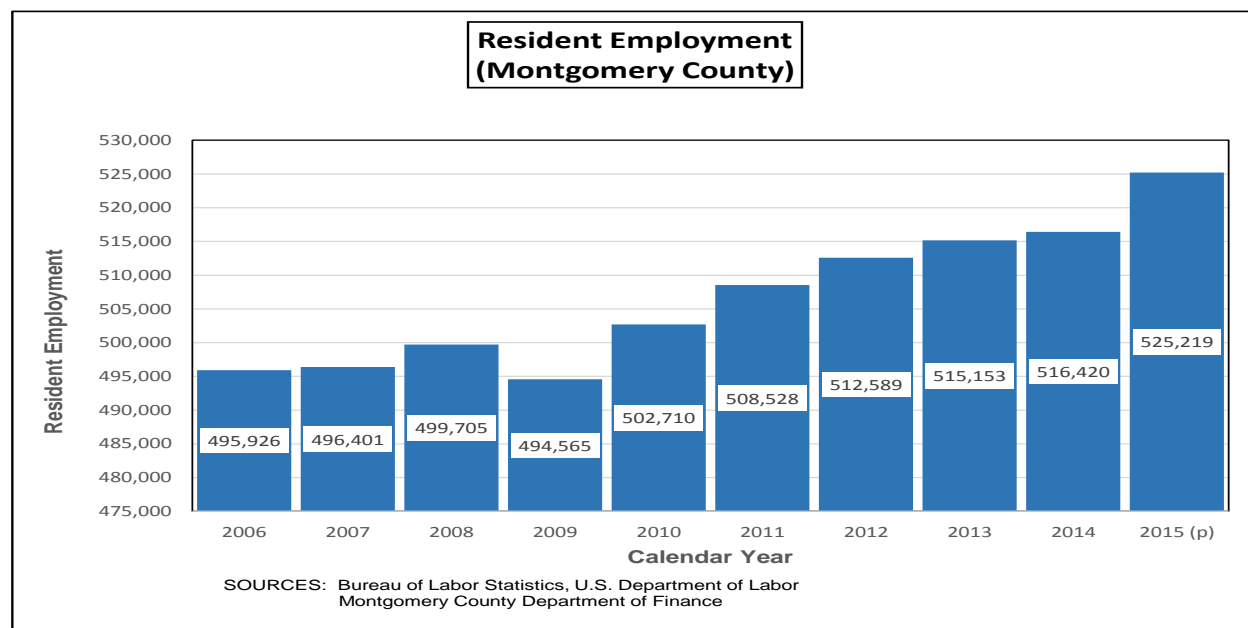


## MONTGOMERY COUNTY ECONOMIC INDICATORS

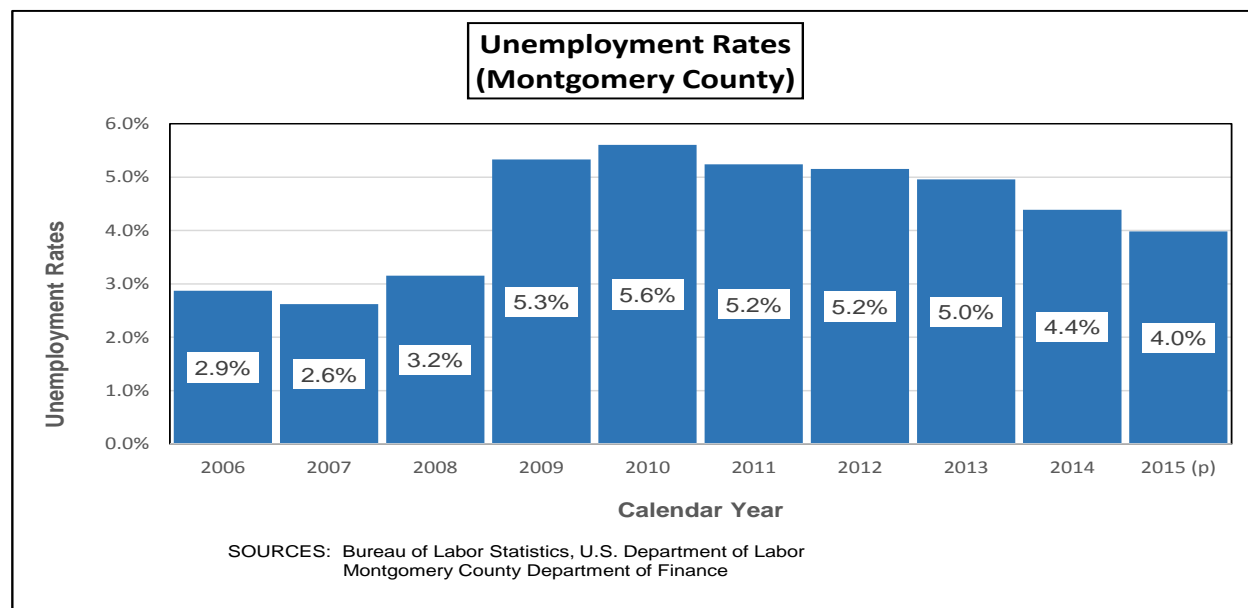
Montgomery County's economy experienced mixed but generally positive economic performance during 2015. Some of the areas of strength included an increase in resident employment, a decline in the unemployment rate, an increase in the sales of existing homes, and an increase in the value of non-residential construction. However, offsetting those increases, the County experienced a modest decline in the average sales price for an existing home, no change in the median sales price for an existing home, and a decline in the construction of residential properties.

### *Employment Situation*

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, resident employment (labor force series and not seasonally adjusted) in 2015 increased by 8,800 from 2014 (↑1.7%).

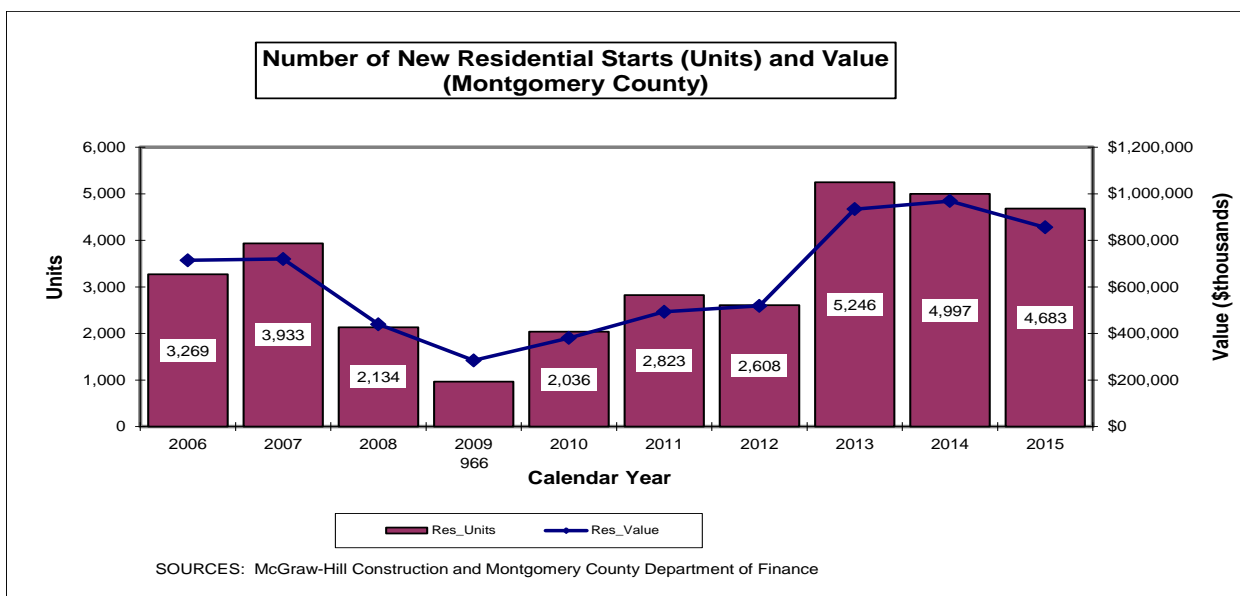


The County's unemployment rate declined to 4.0 percent in 2015 compared to 4.4 percent in 2014 and is the lowest in seven years. The decline in the unemployment rate is attributed to a larger percentage increase in employment ( $\uparrow 1.70\%$ ) compared to the increase in the labor force ( $\uparrow 1.27\%$ ).



### ***Construction Activity***

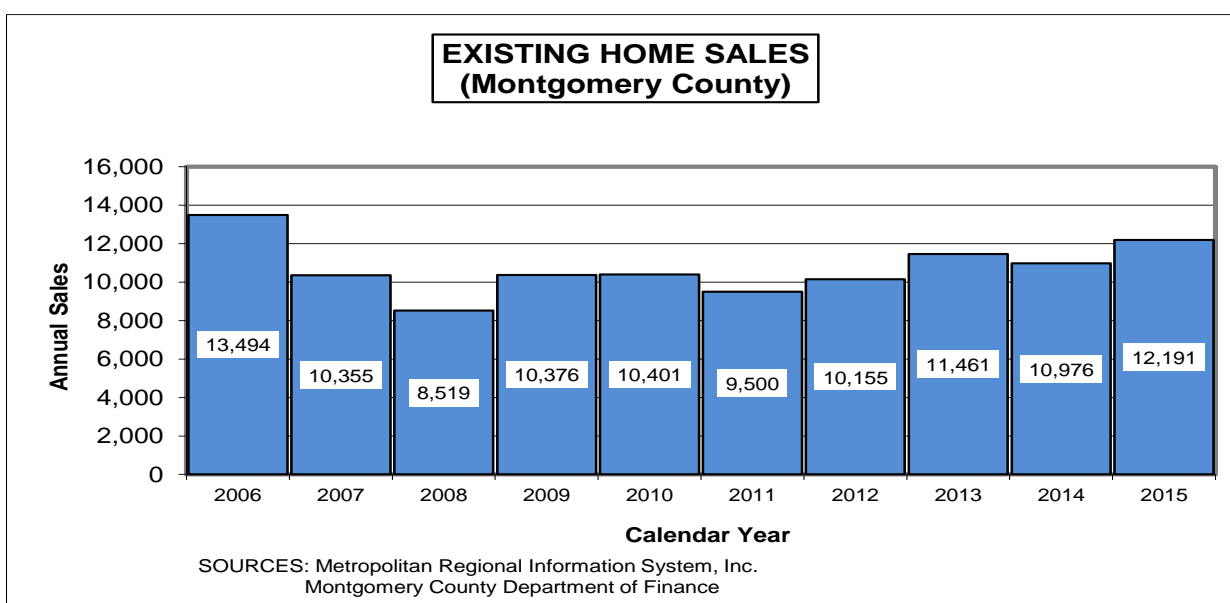
After experiencing an increase of over 100 percent in 2013, the construction of new residential units declined 4.8 percent in 2014 and another 6.3 percent in 2015. Even with that decline in 2015, the number of new residential units constructed in 2015 was the third highest number in ten years. The decrease was attributed to the decline in the construction of single-family homes ( $\downarrow 20.8\%$ ). Construction of multi-family units was up 1.1 percent in 2015. Total value added decreased from a total of \$968.6 million in 2014 to \$855.9 million in 2015 ( $\downarrow 11.6\%$ ). While the number of non-residential construction projects decreased from 159 projects in 2014 to 138 in 2015 ( $\downarrow 13.2\%$ ), the total value added increased from \$473.1 million to \$718.4 million ( $\uparrow 51.9\%$ ). The number of residential permits (units) declined from 3,818 in 2014 to 2,025 in 2015 ( $\downarrow 47.0\%$ ) while the number of non-residential permits increased 7.1 percent in 2015.

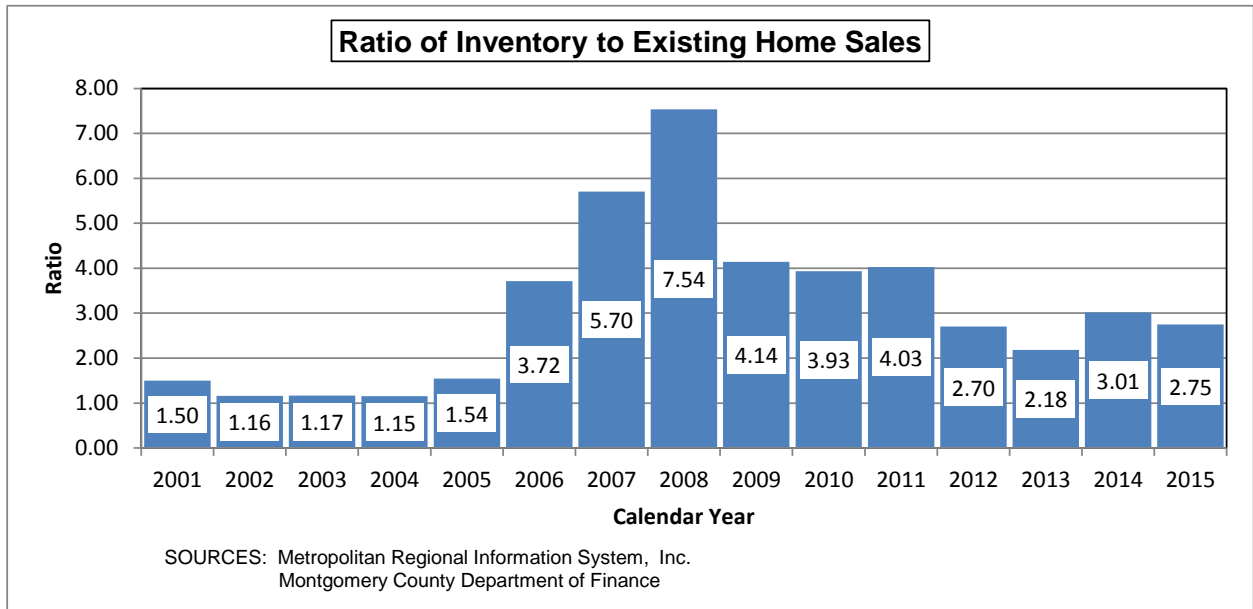
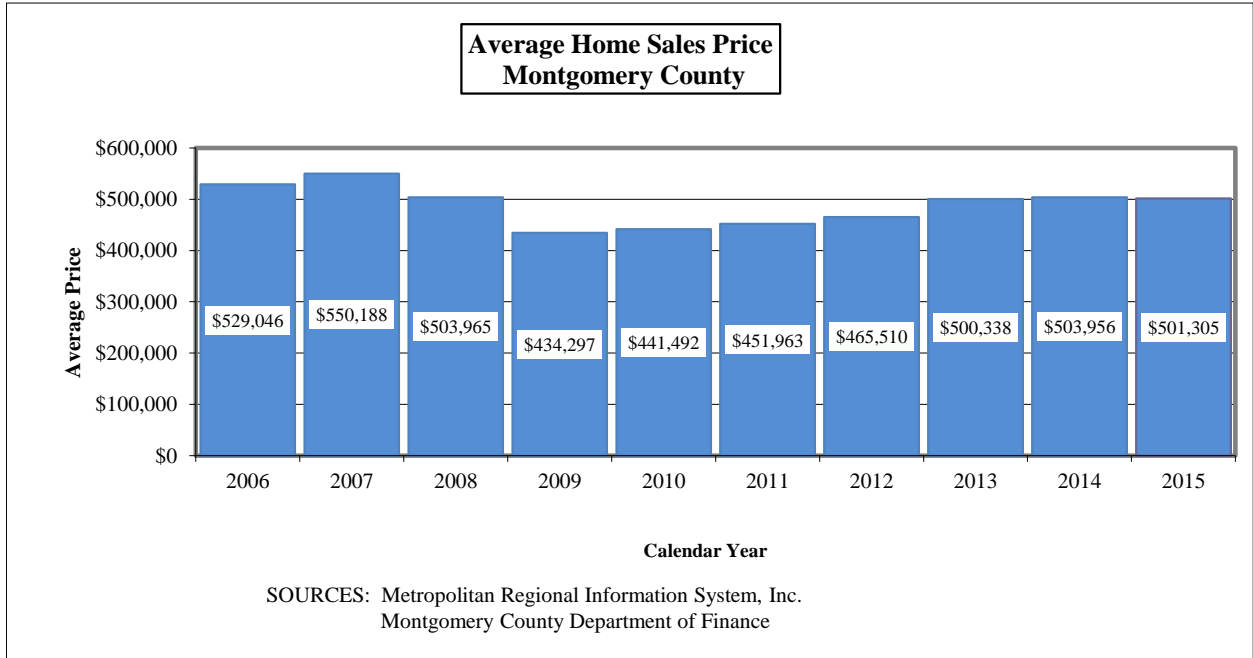


### *Residential Real Estate*

During calendar year 2015, existing home sales increased 11.1 percent from 2014 which followed a 4.2 percent decline in 2014. The average sales price for existing homes decreased a modest 0.5 percent in 2015 while the median sales price did not change and remained at \$400,000 in 2015. Due to low mortgage rates combined with strong growth in employment and little or no growth in prices, home sales in 2015 experienced its second strongest performance since 2009 when sales increased 21.8 percent.

Another factor is that the number of new listings for home sales, a measure of inventory-to-sales ratio, remained below three-months of sales in 2015. At that level, average or median sales prices should increase in 2016.





### ***Retail Sales***

Using sales tax receipts as a measure of retail sales activity in the County, retail sales, including assessment collections, increased 3.4 percent in 2015. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 2.8 percent during this period while sales of durable goods were up 5.2 percent. The increase in nondurable goods purchases was largely attributed to the increase in food and beverage items (↑6.3%) and general merchandise (↑2.9%), while the increase in purchases of

durable goods was largely attributed to an increase in automobile sales and products (↑4.1%), and building and industrial supplies (↑9.5%). With the strong performance of home sales during 2015, the increase in sales of furniture and appliances of 1.2 percent and increase sales of building and industrial supplies support the historical relationship between home sales and sales of specific durable goods.

## **CONCLUSION**

The major economic indicators confirm that the County's economy experienced mixed but generally positive economic performance during 2015. That mixed performance included an increase in residential employment, a decline in the unemployment rate, an increase in existing home sales, and an increase in the value added for non-residential construction, but partially offset by a decline in the construction and value added of new residential construction and no changes in residential real estate prices.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2015
				2015	2014	
Leading Indicators						
National	Jan. '16	-0.2%		n.m.	n.m.	n.m.
Maryland	Dec. '15	1.7%		2.2%	1.7%	2.2%
Washington MSA	Nov. '15	0.4%		0.9%	3.1%	n.a.
Coincident Indicators						
National	Jan. '16	0.3%		n.m.	n.m.	n.m.
Maryland	Dec. '15	0.3%		4.0%	2.5%	4.0%
Washington MSA	Nov. '15	0.3%		4.7%	2.0%	n.a.
Consumer Confidence Index						
National	Feb. '16	-5.7%		12.7%	18.7%	12.7%
South Atlantic Region	Feb. '16	-2.5%		13.7%	24.1%	13.7%
Consumer Sentiment (University of Michigan)	Feb. '16	-0.3%		10.5%	6.2%	10.5%
Consumer Price Index						
All Items (nsa)						
National	Jan. '16	1.4%		0.1%	1.6%	0.1%
Washington - Baltimore CMSA	Jan. '16	1.4%		0.3%	1.5%	0.3%
Core CPI (nsa)						
National	Jan. '16	2.2%		1.8%	1.7%	1.8%
Washington - Baltimore CMSA	Jan. '16	2.3%		1.8%	1.8%	1.8%
Retail Trade						
National (sales - nsa)	Jan. '16	1.4%		2.1%	3.9%	2.1%
Maryland (sales tax)(1)	Dec. '15	1.1%		4.1%	3.6%	4.1%
Montgomery County (sales tax)(1)	Dec. '15	-1.5%		3.4%	2.5%	3.4%
Employment						
Maryland (labor force data - nsa)	Dec. '15	3,019,686	2,930,984	2,982,030	2,929,977	2,982,030
- Percent Change		3.0%		1.8%		1.8%
Silver Spring-Frederick-Rockville (labor force data)	Dec. '15	657,072	636,631	648,623	637,558	648,623
- Percent Change		3.2%		1.7%		1.7%
Montgomery County (labor force data)	Dec. '15	532,164	516,195	525,200	516,420	525,200
- Percent Change		3.1%		1.7%		1.7%
Montgomery County (QCEW)(2)	June '15	466,628	462,926	457,813	453,473	n.a.
- Percent Change		0.8%		1.0%		
Unemployment						
Maryland (nsa)	Dec. '15	4.6%	5.2%	5.2%	5.8%	5.2%
Silver Spring-Frederick-Rockville (labor force data)	Dec. '15	3.4%	3.9%	4.1%	4.5%	4.1%
Montgomery County (nsa)	Dec. '15	3.3%	3.8%	4.0%	4.4%	4.0%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	Jan. '16	\$104,030	\$106,909	\$1,574,258	\$1,441,609	\$1,574,258
- Percent Change		-2.7%		9.2%		9.2%
Residential (\$ thousands)	Jan. '16	\$29,835	\$13,734	\$855,884	\$968,564	\$855,884
- Percent Change		117.2%		-11.6%		-11.6%
Non-Residential (\$ thousands)	Jan. '16	\$74,195	\$93,175	\$718,374	\$473,045	\$718,374
- Percent Change		-20.4%		51.9%		51.9%
Building Permits (Residential)						
Maryland	Jan. '16	1,056	1,220	16,149	17,353	16,149
- Percent Change		-13.4%		-6.9%		-6.9%
Montgomery County (units)	Dec. '15	132	96	2,025	3,818	2,025
- Percent Change		37.5%		-47.0%		-47.0%
Building Permits (Non-Residential)						
Montgomery County	Jan. '16	128	131	2,019	1,886	2,019
- Percent Change		-2.3%		7.1%		7.1%
Construction Cost Index						
Baltimore	Feb. '16	6,933.34	7,056.39	6,943.79	6,944.95	6,943.79
		-1.7%		0.0%		0.0%
Real Estate						
Case-Shiller Home Price Index*(nsa)						
	Dec. '15	210.27	206.74	210.02	207.63	210.02
		1.7%		1.2%		1.2%
Maryland						
Sales	Jan. '16	4,439	3,886	73,044	62,804	73,044
- Percent Change		14.2%		16.3%		16.3%
Median Price	Jan. '16	\$244,989	\$233,812	\$261,002	\$260,899	\$261,002
- Percent Change		4.8%		0.0%		0.0%
Montgomery County						
Sales	Jan. '16	646	592	12,191	10,976	12,191
- Percent Change		9.1%		11.1%		11.1%
Average Price	Jan. '16	\$451,298	\$459,091	\$501,305	\$503,956	\$501,305
- Percent Change		-1.7%		-0.5%		-0.5%
Median Price	Jan. '16	\$360,000	\$370,500	\$400,000	\$400,000	\$400,000
- Percent Change		-2.8%		0.0%		0.0%
Average Days on the Market	Jan. '16	77	74	57	50	60

## NOTES:

(n.m.): not meaningful

(nsa): not seasonally adjusted

(n.a.): not available

(1): Data include miscellaneous and assessment collections.

(QCEW): Quarterly Census of Employment and Wages

(2) SOURCE: Bureau of Labor Statistics, U.S. Department of Labor